

IOWA STATE ASSOCIATION OF COUNTIES

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2004 AND 2003

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Iowa State Association of Counties

We have audited the accompanying statements of financial position of the Iowa State Association of Counties as of June 30, 2004 and 2003, and the related statements of activities, program activities and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Iowa State Association of Counties as of June 30, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated July 30, 2004, on our consideration of the Iowa State Association of Counties' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit of the basic financial statements as of and for the year ended June 30, 2004 was made primarily to form an opinion on the consolidated financial statements taken as a whole. The supplemental information contained on page 13 is presented for the purposes of additional analysis and, although not required for a fair presentation of the financial position and changes in net assets, was subjected to the audit procedures applied in the audit of the basic financial statements. In our opinion, the supplemental information is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

McGowen, Hurst, Clark & Smith, P.C.

West Des Moines, Iowa
July 30, 2004

IOWA STATE ASSOCIATION OF COUNTIES
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2004 AND JUNE 30, 2003

	June 30, 2004			
	Iowa State Association of Counties			Electronic
	Association	Program		Transactions
	Activities	Activities	Total	Clearinghouse
Cash and cash equivalents	\$ 276,303	\$ 1,340,513	\$ 1,616,816	\$ 82,280
Investments	623,093	12,833,599	13,456,692	-
Accounts receivable	20,584	57,719	78,303	-
Due from Wellmark	-	544,737	544,737	-
Due from County Case Management Services	31,122	-	31,122	-
Interest receivable	3,385	116,271	119,656	-
Property and equipment, net of accumulated depreciation of \$222,916	104,133	-	104,133	28,522
TOTAL ASSETS	\$ 1,058,620	\$ 14,892,839	\$ 15,951,459	\$ 110,802
Accounts payable and accrued liabilities	\$ 5,994	\$ 45,953	\$ 51,947	\$ 13,486
Funds held for benefit of members	-	14,846,886	14,846,886	-
Compensated absences	83,649	-	83,649	-
TOTAL LIABILITIES	89,643	14,892,839	14,982,482	13,486
NET ASSETS - Unrestricted	968,977	-	968,977	97,316
TOTAL LIABILITIES AND NET ASSETS	\$ 1,058,620	\$ 14,892,839	\$ 15,951,459	\$ 110,802

The accompanying notes are an integral part of these financial statements.

June 30, 2003

		Iowa State Association of Counties		
Eliminations	Total	Association Activities	Program Activities	Total
\$ -	\$ 1,699,096	\$ 299,705	\$ 2,151,931	\$ 2,451,636
-	13,456,692	449,579	7,545,132	7,994,711
(13,486)	64,817	76,785	82,281	159,066
-	544,737	-	744,585	744,585
-	31,122	27,223	-	27,223
-	119,656	1,723	95,658	97,381
-	-	-	-	-
-	132,655	124,064	-	124,064
<u>\$ (13,486)</u>	<u>\$ 16,048,775</u>	<u>\$ 979,079</u>	<u>\$ 10,619,587</u>	<u>\$ 11,598,666</u>
\$ (13,486)	\$ 51,947	\$ 19,450	\$ 46,191	\$ 65,641
-	14,846,886	-	10,573,396	10,573,396
-	83,649	85,593	-	85,593
(13,486)	14,982,482	105,043	10,619,587	10,724,630
-	1,066,293	874,036	-	874,036
<u>\$ (13,486)</u>	<u>\$ 16,048,775</u>	<u>\$ 979,079</u>	<u>\$ 10,619,587</u>	<u>\$ 11,598,666</u>

IOWA STATE ASSOCIATION OF COUNTIES
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

Iowa State Association of Counties				
REVENUE	Association Activities		Program	Total
	Budget	Actual	Activities	
Schools, workshops, committees & seminars	\$ 215,330	\$ 229,772	\$ -	\$ 229,772
Contributions	-	-	39,269	39,269
Dues	422,850	427,315	-	427,315
Royalties	170,900	221,165	-	221,165
Investment income	15,000	8,435	69,163	77,598
Magazine advertising and subscriptions	33,000	38,456	-	38,456
Administration fees	629,025	655,321	-	655,321
County premiums	-	-	27,705,205	27,705,205
Miscellaneous	48,791	3,181	-	3,181
Total Revenues	1,534,896	1,583,645	27,813,637	29,397,282
EXPENSES				
Salaries and fringe benefits	1,038,016	1,027,995	-	1,027,995
Schools, workshops and meetings	83,500	77,477	-	77,477
Board of Directors' meeting expenses	20,500	24,213	-	24,213
Other board authorized expense	5,000	5,610	-	5,610
NACO conference	18,000	12,092	-	12,092
Staff travel and training	50,000	49,763	-	49,763
Public relations	5,000	2,341	-	2,341
Consulting/professional services	18,500	11,049	-	11,049
Rents and utilities	142,225	134,987	-	134,987
Supplies, printing and postage	35,500	27,251	-	27,251
Computer supplies	10,000	4,113	-	4,113
Equipment rental and repair	4,000	1,782	-	1,782
Depreciation expense	-	33,597	-	33,597
Maintenance agreements	18,200	15,270	-	15,270
Professional membership	3,000	3,158	-	3,158
Library	9,000	8,579	-	8,579
Magazine	32,000	35,385	-	35,385
Insurance and bonds	13,000	13,283	-	13,283
Acquisition of property and equipment	40,000	-	-	-
Miscellaneous	1,000	759	201,958	202,717
Scholarships	-	-	12,000	12,000
Claims and premiums paid	-	-	22,958,757	22,958,757
Administration	-	-	265,020	265,020
Wellness program	-	-	102,412	102,412
Project management and development	-	-	-	-
Total Expenses	1,546,441	1,488,704	23,540,147	25,028,851
INCREASE IN FUNDS HELD FOR BENEFIT OF MEMBERS	-	-	\$ 4,273,490	4,273,490
INCREASE (DECREASE) IN NET ASSETS	\$ (11,545)	94,941		94,941
NET ASSETS, BEGINNING OF YEAR		874,036		874,036
NET ASSETS, END OF YEAR		\$ 968,977		\$ 968,977

The accompanying notes are an integral part of these financial statements.

Electronic Transactions Clearinghouse	Eliminations	Total	Prior Year Total
\$ -	\$ -	\$ 229,772	\$ 240,857
-	-	39,269	25,928
-	-	427,315	423,102
-	-	221,165	60,720
800	-	78,398	233,036
-	-	38,456	36,934
-	(13,486)	641,835	731,053
339,360	-	28,044,565	28,703,866
-	-	3,181	-
340,160	(13,486)	29,723,956	30,455,496
-	-	1,027,995	967,211
-	-	77,477	88,635
-	-	24,213	26,343
-	-	5,610	4,075
-	-	12,092	13,403
-	-	49,763	50,353
-	-	2,341	3,791
-	-	11,049	8,850
-	-	134,987	134,900
-	-	27,251	30,499
-	-	4,113	10,570
-	-	1,782	1,729
10,729	-	44,326	34,826
-	-	15,270	11,504
-	-	3,158	2,924
-	-	8,579	7,436
-	-	35,385	36,224
-	-	13,283	12,004
-	-	-	-
746	-	203,463	157,441
-	-	12,000	10,500
-	-	22,958,757	26,093,886
13,486	(13,486)	265,020	261,199
-	-	102,412	127,524
217,883	-	217,883	-
242,844	(13,486)	25,258,209	28,095,827
-	-	4,273,490	2,305,371
97,316	-	192,257	54,298
-	-	874,036	819,738
\$ 97,316	-	\$ 1,066,293	\$ 874,036

IOWA STATE ASSOCIATION OF COUNTIES
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2003

REVENUE	Association Activities		Program Activities	Total
	Budget	Actual		
Schools, workshops, committees & seminars	\$ 214,500	\$ 240,857	\$ -	\$ 240,857
Contributions	-	-	25,928	25,928
Dues	422,850	423,102	-	423,102
Royalties	80,000	60,720	-	60,720
Investment income	22,000	9,114	223,922	233,036
Magazine advertising and subscriptions	26,000	36,934	-	36,934
Administration fees	684,900	731,053	-	731,053
County premiums	-	-	28,703,866	28,703,866
Total Revenues	1,450,250	1,501,780	28,953,716	30,455,496
EXPENSES				
Salaries and fringe benefits	979,300	967,211	-	967,211
Schools, workshops and meetings	89,500	88,635	-	88,635
Board of Directors' meeting expenses	23,500	26,343	-	26,343
Other board authorized expense	5,000	4,075	-	4,075
NACO conference	16,000	13,403	-	13,403
Staff travel and training	50,000	50,353	-	50,353
Public relations	5,000	3,791	-	3,791
Consulting/professional services	18,500	8,850	-	8,850
Rents and utilities	138,475	134,900	-	134,900
Supplies, printing and postage	35,500	30,499	-	30,499
Computer supplies	10,000	10,570	-	10,570
Equipment rental and repair	4,000	1,729	-	1,729
Depreciation expense	-	34,826	-	34,826
Maintenance agreements	12,000	11,504	-	11,504
Professional membership	3,000	2,924	-	2,924
Library	9,000	7,436	-	7,436
Magazine	29,000	36,224	-	36,224
Insurance and bonds	11,500	12,004	-	12,004
Acquisition of property and equipment	15,000	-	-	-
Miscellaneous	1,000	2,205	155,236	157,441
Scholarships	-	-	10,500	10,500
Claims and premiums paid	-	-	26,093,886	26,093,886
Administration	-	-	261,199	261,199
Wellness program	-	-	127,524	127,524
Project management and development	-	-	-	-
Total Expenses	1,455,275	1,447,482	26,648,345	28,095,827
INCREASE IN FUNDS HELD FOR BENEFIT OF MEMBERS	-	-	\$ 2,305,371	2,305,371
INCREASE (DECREASE) IN NET ASSETS	\$ (5,025)	54,298		54,298
NET ASSETS, BEGINNING OF YEAR		819,738		819,738
NET ASSETS, END OF YEAR		\$ 874,036		\$ 874,036

The accompanying notes are an integral part of these financial statements.

IOWA STATE ASSOCIATION OF COUNTIES
STATEMENTS OF PROGRAM ACTIVITIES
YEARS ENDED JUNE 30, 2004 AND 2003

Year Ended June 30, 2004

	Health Fund	AD&D Fund	Unemployment Fund
REVENUE			
Contributions	\$ -	\$ -	\$ -
Investment income	51,960	106	16,999
County premiums	27,403,344	112,220	189,641
Total Revenues	<u>27,455,304</u>	<u>112,326</u>	<u>206,640</u>
EXPENSES			
Miscellaneous	182,211	353	-
Scholarships	-	-	-
Claims and premiums paid	22,709,722	83,768	165,267
Administration	243,397	8,329	13,294
Wellness program	102,412	-	-
Total Expenses	<u>23,237,742</u>	<u>92,450</u>	<u>178,561</u>
INCREASE IN FUNDS HELD FOR BENEFIT OF MEMBERS	4,217,562	19,876	28,079
FUNDS HELD FOR BENEFIT OF MEMBERS - BEGINNING OF YEAR	<u>8,907,993</u>	<u>23,840</u>	<u>1,614,297</u>
FUNDS HELD FOR BENEFIT OF MEMBERS - END OF YEAR	<u><u>\$ 13,125,555</u></u>	<u><u>\$ 43,716</u></u>	<u><u>\$ 1,642,376</u></u>

Year Ended June 30, 2003

	Insurance Fund	Unemployment Fund
REVENUE		
Contributions	\$ -	\$ -
Investment income	162,334	61,588
County premiums	28,494,463	209,403
Total Revenues	<u>28,656,797</u>	<u>270,991</u>
EXPENSES		
Miscellaneous	152,748	358
Scholarships	-	-
Claims and premiums paid	25,922,485	171,401
Administration	252,829	8,370
Wellness program	127,524	-
Total Expenses	<u>26,455,586</u>	<u>180,129</u>
INCREASE IN FUNDS HELD FOR BENEFIT OF MEMBERS	2,201,211	90,862
FUNDS HELD FOR BENEFIT OF MEMBERS - BEGINNING OF YEAR	<u>6,730,622</u>	<u>1,523,435</u>
FUNDS HELD FOR BENEFIT OF MEMBERS - END OF YEAR	<u><u>\$ 8,931,833</u></u>	<u><u>\$ 1,614,297</u></u>

The accompany notes are an integral part of these financial statements.

Multi-County Service Agency Fund	Scholarship Fund	Total Program Activities
\$ -	\$ 39,269	\$ 39,269
-	98	69,163
-	-	27,705,205
-	39,367	27,813,637
-	19,394	201,958
-	12,000	12,000
-	-	22,958,757
-	-	265,020
-	-	102,412
-	31,394	23,540,147
-	7,973	4,273,490
5,130	22,136	10,573,396
\$ 5,130	\$ 30,109	\$ 14,846,886

Multi-County Service Agency Fund	Scholarship Fund	Total Program Activities
\$ -	\$ 25,928	\$ 25,928
-	-	223,922
-	-	28,703,866
-	25,928	28,953,716
4	2,126	155,236
-	10,500	10,500
-	-	26,093,886
-	-	261,199
-	-	127,524
4	12,626	26,648,345
(4)	13,302	2,305,371
5,134	8,834	8,268,025
\$ 5,130	\$ 22,136	\$ 10,573,396

IOWA STATE ASSOCIATION OF COUNTIES
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 192,257	\$ 54,298
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	44,326	34,826
Realized and unrealized losses on investments	265,719	52,065
Change in:		
Receivables	290,198	(630,074)
Interest receivable	(22,275)	1,093
Accounts payable and accrued liabilities	(13,694)	(1,166)
Funds held for benefit of members	4,273,490	2,305,370
Compensated absences	(1,944)	13,774
Net cash provided by operating activities	<u>5,028,077</u>	<u>1,830,186</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(52,917)	(11,772)
Proceeds from maturities and sales of investments	4,402,563	4,997,019
Purchases of investments	<u>(10,130,263)</u>	<u>(7,326,499)</u>
Net cash used by investing activities	<u>(5,780,617)</u>	<u>(2,341,252)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(752,540)	(511,066)
CASH AND CASH EQUIVALENTS, beginning of year	<u>2,451,636</u>	<u>2,962,702</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 1,699,096</u></u>	<u><u>\$ 2,451,636</u></u>

The accompanying notes are an integral part of these financial statements.

IOWA STATE ASSOCIATION OF COUNTIES
NOTES TO FINANCIAL STATEMENTS

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The Iowa State Association of Counties ("Association") was established in 1968 as a perpetual, non-profit corporation under the provisions of Chapter 504A of the Iowa Non-Profit Corporation Act.

The purposes for which the Association is organized are to maintain a permanent organization to secure cooperation among the counties of the State of Iowa and the public officers of the counties in a comprehensive study of local problems and in the application of knowledge obtained to procure efficient methods of local government.

The 2004 financial statements include the financial position and activities of the Electronic Transactions Clearinghouse (ETC). ETC, which began operations on July 1, 2003, was formed in accordance with Iowa Code Chapter 28E to provide the use of an electronic data interchange for Health Insurance Portability and Accountability Act (HIPAA) related transactions with member counties in Iowa. All significant intercompany accounts and transactions have been eliminated from the financial statements.

Program Services - The Association receives premiums and contributions from its members to fund health insurance benefit programs, an unemployment benefit program and other special programs. These funds and related investment earnings are held by the Association on the behalf of these members. Expenses incurred in providing benefits to the participating members are deducted from the funds held. The Association has a general understanding with its members that any excess funds will be used to pay for future benefits, reduce future premium charges or will be refunded to the participating members.

Functional Allocation of Expenses - The Statement of Activities and Statement of Program Activities presents expenses by functional classification. Association expenses include all executive, financial administration, information systems, personnel, public relations and building rents and maintenance expenses. Program costs consist entirely of amounts directly related to the operation of each program. Administration costs totaling \$265,020 and \$261,199 during 2004 and 2003, respectively, were remitted by these programs to "Association Activities" and have been reported as revenues for "Association Activities" and as expenses for "Program Activities."

Property and Equipment - Property and equipment are recorded at cost. Depreciation is provided using the straight-line method over the estimated economic useful lives of the assets, ranging from five to fifteen years.

Income Tax Status - The Association has been determined to be exempt from income taxes under Section 501(c)(4) of the Internal Revenue Code. Although the Association was granted income tax exemption by the Internal Revenue Service, such exemption does not apply to "unrelated business taxable income." Such income, pursuant to the Internal Revenue Code and related regulations, includes income derived from advertisements in the monthly magazine. No provision for income taxes has been made in the accompanying financial statements as the direct and indirect costs associated with printing the magazine are greater than the advertising income derived.

IOWA STATE ASSOCIATION OF COUNTIES
NOTES TO FINANCIAL STATEMENTS

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES --
continued

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Credit Risk - The Association has bank deposits in excess of federally insured limits totaling \$405,339 at June 30, 2004. This risk is managed by maintaining all deposits in high quality financial institutions. The Association also has funds totaling \$1,081,755 invested in money market accounts not insured by the FDIC; however, the financial institution has pledged assets against these deposits.

Compensated Absences - Vacation earned, but unused, is recorded as a liability in the financial statements. The liability for these compensated absences is calculated using current rates of pay.

Royalty Income - The Association is a co-sponsor of the Iowa Public Agency Investment Trust and receives a royalty based upon a percentage of its members' deposits in the trust.

Cash and Cash Equivalents - All highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

NOTE B - INVESTMENTS

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are presented as a component of changes in net assets. Fair value is determined using market prices. Investments are composed of the following:

	2004		
	Cost	Fair Value	Unrealized Gain (Loss)
Certificates of deposit	\$ 1,698,881	\$ 1,698,881	\$ -
U.S. Treasury Notes	5,355,983	5,205,483	(150,500)
Federal Home Loan Bank Notes and Debentures	1,574,097	1,571,002	(3,095)
Federal Farm Credit Bank Notes and Debentures	1,506,508	1,491,719	(14,789)
Federal Home Loan Mortgage Corporation Notes	3,089,865	3,079,159	(10,706)
Federal National Mortgage Assn. Note	437,078	410,448	(26,630)
	<u>\$ 13,662,412</u>	<u>\$ 13,456,692</u>	<u>\$ (205,720)</u>

IOWA STATE ASSOCIATION OF COUNTIES
NOTES TO FINANCIAL STATEMENTS

NOTE B - INVESTMENTS - continued

	2003		
	Cost	Fair Value	Unrealized Gain (Loss)
Certificates of deposit	\$ 2,259,578	\$ 2,258,945	\$ (633)
U.S. Treasury Notes	3,589,400	3,602,585	13,185
Federal Home Loan Bank Notes and Debentures	1,685,177	1,700,614	15,437
Federal National Mortgage Assn. Note	437,078	432,567	(4,511)
	<u>\$ 7,971,233</u>	<u>\$ 7,994,711</u>	<u>\$ 23,478</u>

The fair value of investments at June 30, 2004 by contractual maturity is shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	2005	2006	2007	Total
Certificates of deposit	\$ 1,258,399	\$ 262,586	\$ 177,895	\$ 1,698,881
U.S. Treasury Notes	4,309,671	786,312	109,500	5,205,483
Federal Home Loan Bank notes and debentures	-	1,571,002	-	1,571,002
Federal Farm Credit Bank notes and debentures	498,594	993,125	-	1,491,719
Federal Home Loan Mortgage Corporation Notes	-	3,079,159	-	3,079,159
Federal National Mortgage Association note	410,448	-	-	410,448
	<u>\$ 6,477,112</u>	<u>\$ 6,692,184</u>	<u>\$ 287,395</u>	<u>\$13,456,692</u>

Following is a summary of the Association's investment income:

	2004	2003
Interest income, net of investment fees of \$25,301 and \$19,785 for 2004 and 2003, respectively	\$ 344,116	\$ 285,112
Net realized and unrealized losses on investments	(265,718)	(52,076)
Net investment income	<u>\$ 78,398</u>	<u>\$ 233,036</u>

IOWA STATE ASSOCIATION OF COUNTIES
NOTES TO FINANCIAL STATEMENTS

NOTE C - PROPERTY AND EQUIPMENT

Following is a summary of property and equipment at June 30, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Leasehold improvements	\$ 85,493	\$ 85,493
Equipment	214,363	226,006
Vehicles	16,464	16,464
Computer software	39,251	-
	<u>355,571</u>	<u>327,963</u>
Less accumulated depreciation	(222,916)	(203,899)
	<u>\$ 132,655</u>	<u>\$ 124,064</u>

NOTE D - LEASE COMMITMENTS

The Association leases its office space under a long-term lease agreement. Following are the estimated annual future minimum lease payments, including estimated common area maintenance charges, under the office space lease:

<u>Year Ending June 30,</u>	
2005	\$ 112,332
2006	115,648
2007	120,288
2008	124,284
2009	83,768
Total future minimum lease payments	<u>\$ 556,320</u>

Office rent expense totaled \$100,460 and \$98,140 during 2004 and 2003, respectively.

NOTE E - PENSION PLAN

The Association has a defined contribution pension plan in which all employees are eligible to participate. The plan is funded through the purchase of annuity contracts. Employer contributions are based upon length of employment. Employee contributions are voluntary, but to receive the employer contribution, the employee must contribute an amount equal to the lesser of the determined employer contribution or \$1,000. Employer contributions for the years ended June 30, 2004 and 2003 totaled \$32,566 and \$32,264, respectively.

IOWA STATE ASSOCIATION OF COUNTIES
NOTES TO FINANCIAL STATEMENTS

NOTE F - CONTINGENT LIABILITIES

The Association administers a self-insured medical insurance program for member counties who elect to participate. The Association re-insures annual individual participant medical expenses in excess of \$100,000 through an agreement with an insurance carrier. The agreement, among other things, requires the carrier to cover all annual claims in excess of \$100,000 per participant and also aggregate annual claims in excess of 110% of the annual premium that would have been charged by the carrier had a similar insurance package been purchased directly from them. It is the Association's intention that the program will continue indefinitely and that the funds required to pay claims of the program participants would be limited to those available in the insurance fund. The Association does not record a separate liability for incurred but not reported (IBNR) claims. This liability is considered to be included in the Funds Held for the Benefit of Members' liability balance. The IBNR liability at June 30, 2004 and 2003 was estimated by an actuary to be \$2,593,718 and \$3,064,374 respectively.

The amount due from or to Wellmark, Inc., the third-party administrator of the program, results from the Association's cumulative transfer deposits to pay members' medical claims being more or less than the actual claims paid by Wellmark, Inc. at June 30th.

NOTE G - INTERGOVERNMENTAL RELATIONS EXPENDITURES

The Association's intergovernmental relations expense, which includes expenses incurred by and salaries paid to legislative representatives and lobbyists of the Association, consisted of the following for the years ended June 30, 2004 and 2003:

	2004	2003
Salaries and other personnel costs	\$ 175,128	\$ 175,764
General operating expenses	34,775	38,365
Education/information expenses	16,038	20,352
Meetings, committees, and workshops	25,532	20,124
Property and equipment	2,059	2,427
	<u>\$ 253,532</u>	<u>\$ 257,032</u>

SUPPLEMENTAL INFORMATION



David W. Hurst, CPA
Kathleen A. Koenig, CPA
Robert R. McGowen, CPA
Michael W. McNichols, CPA
Thomas J. Pflanz, CPA
John A. Schmidt, CPA
Daniel A. Schwarz, CPA
S. James Smith, CPA

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of the
Iowa State Association of Counties

We have audited the financial statements of the Iowa State Association of Counties (a nonprofit organization) as of and for the year ended June 30, 2004, and have issued our report thereon dated July 30, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Iowa State Association of Counties' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Iowa State Association of Counties' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about Iowa State Association of Counties' operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during the audit of the financial statements of Iowa State Association of Counties. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. Comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report is intended solely for the information and use of the Board of Directors and the Association's management and is not intended to be and should not be used by anyone other than these specified parties.

McGowen, Hurst, Clark & Smith, P.C.

West Des Moines, Iowa
July 30, 2004

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
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Mc Gowan, Hunt, Clark & Smith, P.C.

West Des Moines, Iowa
July 30, 2004

IOWA STATE ASSOCIATION OF COUNTIES
COMBINING STATEMENT OF FINANCIAL POSITION -
PROGRAM ACTIVITIES
JUNE 30, 2004

ASSETS

	Health Fund	AD&D Fund	Unemploy- ment Fund	Multi-County Service Agency Fund	Scholar- ship Fund	Total
Cash and cash equivalents	\$ 1,192,373	\$ 43,533	\$ 57,368	\$ 5,130	\$ 42,109	\$ 1,340,513
Investments	11,291,997	-	1,541,602	-	-	12,833,599
Accounts receivable	-	9,740	47,979	-	-	57,719
Due from Wellmark	544,737	-	-	-	-	544,737
Interest receivable	100,173	-	16,098	-	-	116,271
Total Assets	\$ 13,129,280	\$ 53,273	\$ 1,663,047	\$ 5,130	\$ 42,109	\$ 14,892,839

LIABILITIES AND NET ASSETS

Accounts payable and accrued liabilities	\$ 3,725	\$ 9,557	\$ 20,671	\$ -	\$ 12,000	\$ 45,953
Funds held for the benefit of members	13,125,555	43,716	1,642,376	5,130	30,109	14,846,886
Total Liabilities	13,129,280	53,273	1,663,047	5,130	42,109	14,892,839
NET ASSETS - unrestricted	-	-	-	-	-	-
Total Liabilities and Net Assets	\$ 13,129,280	\$ 53,273	\$ 1,663,047	\$ 5,130	\$ 42,109	\$ 14,892,839